

6 March 1984

Imc/cB
7607

MEMORANDUM

SUBJECT: The Reynolds Shutdown: Implications for the Jamaican Bauxite Industry

1. Reynolds' closure will not be a major blow to the Jamaican bauxite industry over the short term. [redacted] total bauxite output is still expected to increase by 8 percent this year--based on a strengthening world aluminum market--compared to the 10 percent increase projected before the Reynolds' announcement. This is a result, in part, of the company's cutbacks over the past three years to only 25-percent of output capacity and a two-thirds reduction in the workforce--to only 200 workers.

25X1

25X1

25X1

2. The pullout will be a blow to public confidence, and probably will provide a rallying point for the opposition. The private sector will inevitably question the strength of the long-awaited Jamaican economic recovery, expected to be driven by steady improvement in the bauxite market. Prime Minister Seaga's image as a friend of US business and a successful promoter of Jamaica to foreign investors also will be tarnished by the departure of Reynolds--in addition to Hilton and Esso refining operations in the past 18 months. Michael Manley's People's National Party (PNP)--closely associated with the bauxite workers' union--and the communist Worker's Party of Jamaica (WPJ) can be expected to cite this issue in the coming months as an example of Seaga's poor economic management. In addition, the WPJ has called for the nationalization of Reynolds' 49-percent share in its mining operations.

25X1

3. Reynolds' departure will also complicate Jamaica's financial situation. The loss of some \$34 million in foreign

ALA M 84-10026

25X1

SECRET

[redacted] exchange earnings and over \$25 million in government revenues from Reynolds will require even harsher austerity measures under IMF guidance this year.

25X1

[redacted] 4. Over the long term, Reynolds' switch to Guinean bauxite may hold significant implications for the Jamaican industry. Jamaica--like most Caribbean bauxite producers--is facing growing competition from high-volume, low-cost producers such as Guinea and Australia. Although Reynolds repeatedly has stressed that the recently renegotiated bauxite levy was not responsible for the company's decision to leave, we believe Kingston will face growing pressures to reduce the levy to become more competitive.

25X1

[redacted] 25X1

Page Denied